Kensington Energy Ltd.

2001 Annual Report

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held at 2:00 p.m. on May 23, 2002 at the Metropolitan Centre, Royal Room located at 333 - 4th Avenue S.W., Calgary, Alberta. Shareholders are encouraged to attend and those unable to do so are requested to complete and return their proxy form at their earliest convenience.

Corporate Profile

Kensington Energy Ltd. is a Calgary based independent junior energy company engaged in the exploration and production of petroleum and natural gas in Western Canada. The past year marked significant changes for the Corporation from a shareholder and management perspective. In August, a recapitalization and management reorganization provided Kensington with a revitalized business plan, increased financial capability, and a new management team. The Corporation's producing asset base is located in central and north-central Alberta. Kensington's common shares trade on the Canadian Venture Exchange under the trading symbol "KNN.A".

HIGHLIGHTS

Years ended December 31	2001	2000
	($)	($)
Financial		
Revenue	**2,129,287**	2,203,200[1]
Net income	**258,866**	189,719
Per basic share	**0.02**	0.02
Per diluted share	**0.02**	0.02
Cash flow	**932,978**	1,168,359
Per basic share	**0.08**	0.15
Per diluted share	**0.08**	0.14
Capital expenditures, net	**1,825,814**	565,302
Working capital (deficiency)	**4,708,705**	(696,851)
Long-term bank indebtedness	**-**	810,000
Shareholders' equity	**10,752,323**	3,428,151
Total assets	**13,895,955**	6,818,953
Common shares outstanding		
Basic at year end	**29,400,426**	10,142,776
Weighted average	**11,491,157**	7,898,847
Fully diluted weighted average	**11,574,200**	7,906,717
Operating		
Production		
Oil and NGLs (bbls/d)	**111**	137
Natural gas (mcf/d)	**386**	139
Barrels of oil equivalent (BOE/d)[2]	**175**	160
Proven reserves		
Oil and NGLs (bbls)	**284,000**	311,000
Natural gas (mmcf)	**3,014**	1,042
Barrels of oil equivalent (BOE)	**786,300**	484,700
Probable reserves		
Oil and NGLs (bbls)	**91,000**	544,000
Natural gas (mmcf)	**1,363**	2,058
Barrels of oil equivalent (BOE)	**318,200**	887,000
Drilling activity		
Gross wells	**4.0**	4.0
Net wells	**2.4**	0.9

(1) Includes hedging.

(2) Natural gas is equated to oil on the basis of: 6,000 cubic feet or 6 mcf = 1 barrel of oil equivalent.

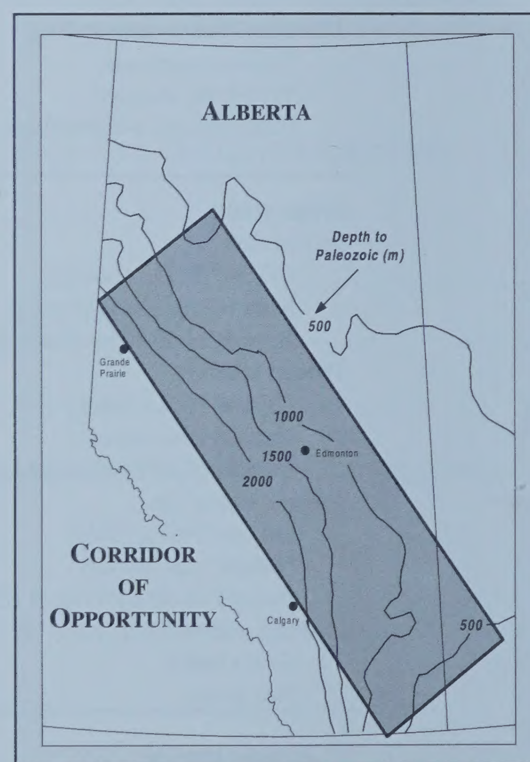
MESSAGE TO SHAREHOLDERS

2001 was a significant year of change for Kensington. In August, a recapitalization and management reorganization occurred that provided Kensington with a revitalized business plan, increased financial capability, and a new management team with a strong equity incentive to build the Corporation's share value for the benefit of all shareholders.

New management provides Kensington with complementary experience in exploration, operations and business development to bolster the Corporation's ability to evaluate and execute new business opportunities. Value creation in all of the Corporation's activities provides the foundation and governing corporate objective for Kensington's business plan going forward.

Kensington has identified its core exploration focus to be:

- medium and long life natural gas and natural gas liquid reserves, and
- conventional crude oil reserves of light and medium density where associated in geographical proximity to natural gas.



Kensington has identified a broad corridor of opportunity within Western Canada to advance projects offering:

- Multi-zone exploration potential;
- Medium and shallow drilling depths;
- Access to infrastructure, and
- Low barriers to entry.

The key elements of Kensington's business strategy are as follows:

- Establish core areas with multi-zone potential
- Continually expand land positions to maintain dominance in growth areas
- Direct exploration capital spending towards natural gas
- Facilitate new impact projects with business development transactions
- Focus on operatorship and speed of execution
- Optimize value creation strategies for existing assets

Kensington is well positioned to deliver future value growth based on:

- strengthened financial resources;
- enhanced management and technical capability, and
- core base of proven producing properties and high working interest undeveloped land.

Under the guidance of new management, the Corporation made tangible progress towards full implementation of its business plan and value creation strategy during 2001.

New management applied immediate attention towards improving the Corporation's weakened production base which had eroded to near historic lows of 105 BOE per day by mid 2001. Through a combination of acquisitions, production optimization efforts, and a successful re-entry operation, the Corporation's production levels doubled to 289 BOE per day during the fourth quarter of 2001. This enabled Kensington to report an average production level of 175 BOE per day during 2001, a 9 percent increase over 2000 and the first annual production increase since 1997.

The product mix of the Corporation's petroleum and natural gas revenues evolved towards a greater natural gas emphasis at year end with 60 percent weighting to natural gas and 40 percent weighting to oil and natural gas liquids. Approximately 60 percent of the Corporation's production was operated by Kensington at year end. Prior to the announced management changes the Corporation's product mix was weighted approximately 85 percent to oil and natural gas liquids and only 20 percent of production was operated by Kensington.

Equity financing resulted in a positive working capital balance of $4.7 million at year end 2001. The equity proceeds came by way of a private placement of 2.4 million shares to the new management team in August, and a second private placement financing consisting of 8.2 million flow-through shares and 8.6 million common shares in December to various management, institutional, and retail investors. These transactions increased the number of shares outstanding to 29.4 million at year end 2001.

Increased capital investment levels of $1.8 million, versus $0.6 million in 2000, boosted the Corporation's proven year end reserves by 62 percent compared to 2000 levels. New reserves were primarily in natural gas, and were added at a net proven finding and development cost of $5.00 per BOE.

Kensington took a cautious approach to reserves reporting to ensure that economic conditions and reservoir performance were realistically considered in all reserve categories. Consequently probable reserve volumes were reduced by 64 percent of their reported 2000 level and proven non-producing reserves were reduced by 15 percent. The quality of Kensington's reported reserves improved as proven developed producing now comprise 79 percent of total proven reserves versus 59 percent at year end 2000. Inclusive of these reserve revisions, total proven reserves at year end 2001 increased by 62 percent compared to 2000, and established reserves (equal to total proven plus half probable) at year end 2001 increased by 1.8 percent over year end 2000 levels.

Kensington has recently invested more dollars for information system capability to aid our exploration and business development initiatives, and more dollars for communication systems for better management of the operating side of our business. Post September 11th, insurance premiums are rising significantly and will impact Kensington's general and administrative costs by the fourth quarter of 2002. All these factors speak to the strategic need for Kensington to increase its cash flow base to reduce its unit general and administrative costs and to leverage its investments in technology for value creation.

During 2001, a dynamic industry environment saw natural gas prices reach historic highs early in the year and fuel unprecedented merger and corporate acquisition activity focused on Canada's gas weighted junior energy sector. Abrupt commodity price reversals in both crude oil and natural gas during the past year acted to reduce available cash flow for drilling reinvestment by the E & P sector. Crude oil markets have since recovered from their recent lows and may be supported over the near term by OPEC policy, continued Middle East tension and economic growth. Natural gas prices, although weather dependent, may benefit over the longer term from tight supplies in North America due to reduced capital spending by the oil and gas industry and through rising demand associated with economic improvement. Set against this economic backdrop is a Canadian exploration and production industry sector increasingly dominated by fewer, but substantially larger independent companies, and a multitude of much smaller organizations, such as Kensington, keeping competition levels high as they seek to establish new core areas.

Kensington's new management team has experience in most operating areas of Western Canada and can see significant opportunity from both the internal projects recognized in Kensington's assets and the external opportunities created by the current industry environment. As a matter of operating philosophy, the Corporation will always be looking to upgrade the lower portion of the organization's identified prospects with projects offering superior returns. Exploration opportunities under consideration for investment by the Corporation include new areas for Kensington where management has had prior success with former companies.

Kensington is staffed for growth with complimentary skill sets and technical expertise. The Corporation has invested in technology to increase the value creation ability of its people. With new financing, a strengthened balance sheet, and changed leadership, the groundwork has now been laid to implement a revitalized Kensington business plan. Value creation is its goal; a balanced strategy will be its means. The potential for successful exploration will drive new growth areas. A diversified capital investment approach will balance exploration risk with growth oriented development and exploitation strategies. An active acquisition and divestment strategy will advance the Corporation's strategies and help shape its asset base going forward.

Since year end, the Corporation has taken steps to strengthen its management team with the addition of Ms. Beverley A. Scobie in the position of Chief Financial Officer.

The Corporation has also undertaken to strengthen its Board of Directors through the addition of two new members and an increase in size of the Board from four to five members. New Board members welcomed to the Corporation are: Mr. Richard R. Couillard and Mr. David H. Erickson, both active Calgary-based business leaders credited with involvement in several successful public and private oil and gas ventures. Leaving the Board is Mr. Ronald G. Quillian of Kelowna, British Columbia, who has been a director of the Corporation since its inception in 1995. Kensington wishes to express its appreciation to Mr. Quillian for his lasting contribution and efforts on behalf of the Corporation.

We wish to express our appreciation to the employees and consultants whose work and professionalism have contributed on a daily basis to the progress made by Kensington. We thank our shareholders for their renewed support and our directors for their contribution and guidance through a challenging period of reorganization for the Corporation. We look forward with confidence to 2002 in what promises to be a year of exciting change.

On behalf of Management and the Board,

Donald S. Wood
President and
Chief Executive Officer

April 8, 2002

EXPLORATION AND OPERATIONS

LAND

Kensington's total gross land position decreased by approximately 17 percent in 2001 primarily due to the sale of non-core undeveloped land and lease expiries. The total net land position decreased by two percent. Overall average working interests increased from 46 percent to 55 percent by the end of 2001. During the third and fourth quarters Kensington began to strategically acquire properties with high working interests through Crown land sales and consolidation of partner interests in key areas. Most of the land acquisitions have allowed for Kensington operatorship and control. Approximately 80 percent of the land inventory is undeveloped which sets the stage for growth with exploration and development projects. Kensington continues to evaluate new areas and existing properties for strategic opportunities.

Land Holdings (acres)

	2001			2000*		
	Gross	**Net**	**WI%**	Gross	Net	WI%
Developed	**9,270**	**4,108**	**44**	8,975	3,282	37
Undeveloped	**37,440**	**21,497**	**57**	47,545	22,963	48
Total	**46,710**	**25,605**	**55**	56,520	26,245	46

* 2000 land statistics have been re-stated to conform with 2001 definitions for comparison.

Undeveloped Land Reconciliation (acres)

	Gross	Net
December 31, 2000*	47,545	22,963
Acquisitions+	4,338	7,635
Dispositions	6,880	2,588
Expiries and reallocations to developed	7,563	6,513
December 31, 2001	**37,440**	**21,497**

* 2000 land statistics have been re-stated to conform with 2001 definitions for comparison.
+ Net exceeds gross due to additional working interest acquisitions from partners in acreage previously held by Kensington.

DRILLING ACTIVITY

Kensington participated in four gross wells (2.4 net) in 2001. Two gross wells (2.0 net) of the Corporation's drilling were operated by Kensington. Drilling success increased to 100 percent in 2001, compared to 75 percent in 2000. Drilling resulted in one natural gas well, one oil well and two standing potential gas wells. Kensington deferred its drilling activity during the first half of the year while the Corporation undertook a thorough review of its strategic alternatives. Drilling operations resumed in the third quarter of 2001.

	2001		2000	
	Gross	**Net**	Gross	Net
Natural gas	**1**	**1.0**	1	0.4
Oil	**1**	**1.0**	2	0.2
Standing	**2**	**0.4**	0	-
Dry	**0**	**-**	1	0.3
Total	**4**	**2.4**	4	0.9
Success rate		100%		75%
Average working interest		60%		22%

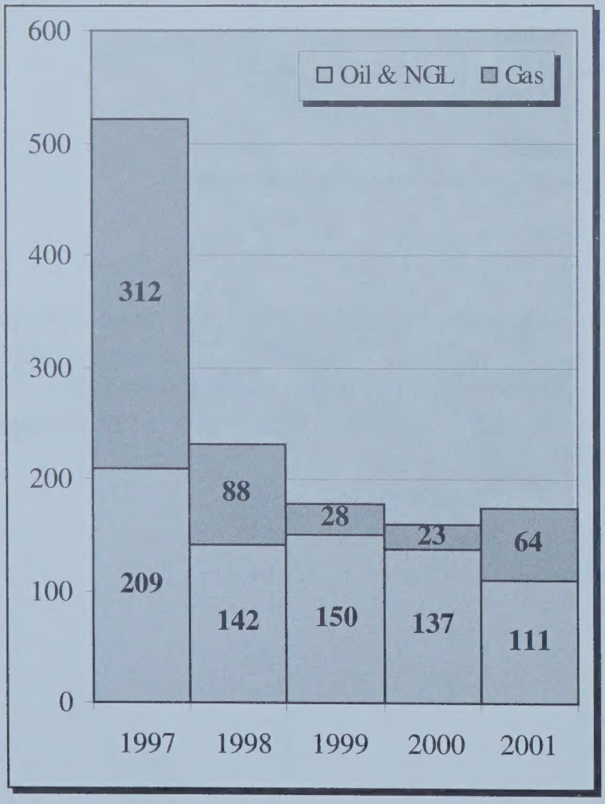
PRODUCTION

Kensington's average production rate in 2001 increased by nine percent to 175 BOE per day compared to 160 BOE per day in 2000. Natural gas production increased by 178 percent to average 386 mcf per day during 2001 and contributed 37 percent of total oil equivalent production. Declining production during the first and second quarters was arrested during the third quarter of 2001 and production additions during the third and fourth quarter of the year resulted in a reversal of this trend. Fourth quarter production in 2001 of 289 BOE per day was 101 percent higher than the comparable period in 2000. Production from reserve additions in the Highvale area were the primary source of incremental production for the year. Kensington's exit rate, defined as the average daily production rate during December 2001, was 306 BOE per day, an increase of 115 percent compared to the same period in 2000.

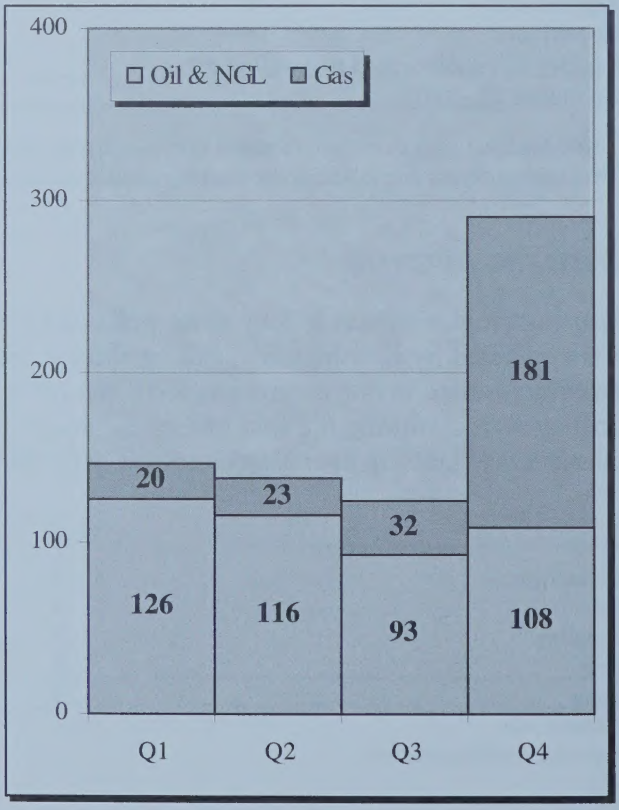
Production, before royalties

	2001			2000		
	Natural Gas (mcf/d)	**Oil and NGL (bbls/d)**	**Oil Equivalent (BOE/d)**	Natural Gas (mcf/d)	Oil and NGL (bbls/d)	Oil Equivalent (BOE/d)
Giroux Lake	**75**	**94**	**107**	40	117	124
Highvale	**306**	**8**	**59**	74	4	16
Other	**5**	**9**	**9**	25	16	20
Total	**386**	**111**	**175**	139	137	160

Production (BOE/d)



2001 Production (BOE/d)



RESERVES

Total proven reserves recognized at year end 2001 were 786 MBOE representing an increase of 302 MBOE or 62 percent over total proven reserves at year end 2000. All reserve additions were natural gas and associated natural gas liquids. The most significant source of proven reserve additions occurred at Highvale as the result of a successful well re-entry on lands acquired during the year. Acquisitions added 160 MBOE of probable reserves in 2001, all of which were converted to proven producing reserves by year end 2001. A negative reserve revision of 600 MBOE to probable reserves was recognized in 2001 to ensure that economic conditions, prevailing technology, and reservoir performance were realistically considered in Kensington's reported reserves. The ratio of proven developed producing reserves increased favorably to 79 percent of total proven reserves at year end 2001, compared to 59 percent at year end 2000. Probable reserves corresponded to 40 percent of total proven reserves at year end 2001 compared to 182 percent of total proven reserves at year end 2000. The proven reserve life index using average 2001 fourth quarter production rates of 289 BOE per day was 7.5 years. The proven plus probable reserve life index using average 2001 fourth quarter production rates was 10.5 years. Established reserves at year end 2001, defined as total proven reserves plus 50 percent of probable reserves, increased by 1.8 percent versus year end 2000.

Reserves Before Royalties* +

	2001			2000		
	Oil and NGL (mbbls)	Natural Gas (mmcf)	Oil Equivalent (mboe)	Oil and NGL (mbbls)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Proven producing	245	2,256	621	242	284	289
Proven non-producing	39	758	165	69	758	195
Total proven	284	3,014	786	311	1,042	485
Probable	91	1,363	318	544	2,058	887
Total proven plus probable	**375**	**4,377**	**1,105**	**855**	**3,100**	**1,372**
Total proven plus 50% probable	330	3,696	945	583	2,071	928

(*) Independently assessed at year end by Martin & Brusset Associates.

(+) Reserves shown for total proven plus 50% probable are summarized with probable values reduced by 50% to incorporate an allowance for risks and uncertainties associated with probable reserves. No other values presented have been reduced to account for risk.

Reserve Reconciliation

	Oil and NGL (mbbls)			Natural Gas (mmcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1998	328	676	1,004	121	1,240	1,361
Discoveries and extensions	37	117	154	756	2,013	2,769
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	(7)	(5)	(12)
Production	(55)	-	(55)	(63)	-	(63)
Revisions of prior estimates	4	(241)	(237)	104	207	311
December 31, 1999	314	552	866	911	3,455	4,366
Discoveries and extensions	34	34	68	331	174	505
Acquisitions	-	-	-	-	-	-
Dispositions	(5)	(10)	(15)	(334)	(421)	(755)
Production	(50)	-	(50)	(51)	-	(51)
Revisions of prior estimates	18	(32)	(14)	185	(1,150)	(966)
December 31, 2000	311	544	855	1,042	2,058	3,100
Discoveries and extensions	50	-	50	2,188	-	2,188
Acquisitions	-	27	27	-	807	807
Dispositions	-	-	-	-	-	-
Production	(40)	-	(40)	(139)	-	(139)
Revisions of prior estimates	(37)	(480)	(517)	(77)	(1,502)	(1,579)
December 31, 2001	**284**	**91**	**375**	**3,014**	**1,363**	**4,377**

Net Present Value Before Income Tax*+

$ thousands	0%	10%	15%	20%
Proven producing	8,265	5,688	4,920	4,341
Proven non-producing	2,337	1,207	951	777
Total proven	10,602	6,895	5,871	5,118
Probable	5,432	1,288	788	523
Total proven plus probable	16,034	8,183	6,659	5,641
Total proven plus 50% probable	13,318	7,539	6,265	5,380

* Independently assessed at year end by Martin & Brusset Associates.

\+ Reserves shown for total proven plus 50% probable are summarized with probable values reduced by 50% to incorporate an allowance for risks and uncertainties associated with probable reserves. No other values presented have been reduced to account for risk.

Reference Price Forecasts*

	Oil		Natural Gas	
	WTI, Cushing, Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($C/bbl)	Alberta Spot Price Plantgate ($C/mmbtu)	Alberta Reference Price Plantgate ($C/mmbtu)
2002	20.00	30.70	3.70	3.55
2003	21.00	31.80	4.00	4.00
2004	21.00	31.30	4.00	4.00
2005	21.30	31.80	4.00	4.00
2006	21.60	32.20	4.00	4.00
Notes	(1)	(2)	(3)	(3)

(1) Gradually increasing to $US 23.40 per barrel by 2012 and escalating by two percent per year thereafter.
(2) Gradually increasing to $C 35.00 per barrel by 2012 and escalating by two percent per year thereafter.
(3) Prices held constant at $C 4.00 per mmbtu through 2010, increasing gradually to $C 4.13 per mmbtu by 2012, escalating at two percent per year thereafter.
* Reference prices are adjusted to actual prices by incorporating oil and NGL differentials and heating values of natural gas.

CAPITAL EXPENDITURES

Kensington's 2001 capital expenditures totaled approximately $2.1 million and were $1.8 million on a net basis after deducting approximately $0.3 million of property dispositions. The significant components of 2001 capital expenditures related to drilling operations conducted at Highvale and Nipisi during the fourth quarter and for acquisitions of undeveloped land and non-producing assets in proximity to the Corporation's operations in these areas. Facility expenditures consisted almost entirely of new well equipping costs at Highvale. Capital expenditures in 2001 were considerably higher than the previous three years as a result of Kensington's improved financial resources. This trend is expected to continue as Kensington implements a more active business plan in 2002.

$ thousands	**2001**	2000	1999	1998	1997
Land and acquisitions	524.4	169.3	125.0	337.7	504.6
Property divestments	(270.0)	(529.2)	(91.4)	(1,233.6)	-
Exploration and development	1,342.4	755.6	415.8	1,178.8	5,308.6
Facilities	229.0	169.7	206.1	265.0	1,001.5
Total capital expenditures	**1,825.8**	**565.3**	**655.5**	**547.9**	**6,814.7**

FINDING AND DEVELOPMENT COSTS

Proven reserves were added at a finding and development cost of $5.00 per proven BOE in 2001. Finding and development costs benefited from the utilization of existing 100 percent owned natural gas gathering infrastructure. Because probable reserve additions in 2001 were less than revisions, the calculation of finding cost per probable BOE resulted in a meaningless negative number.

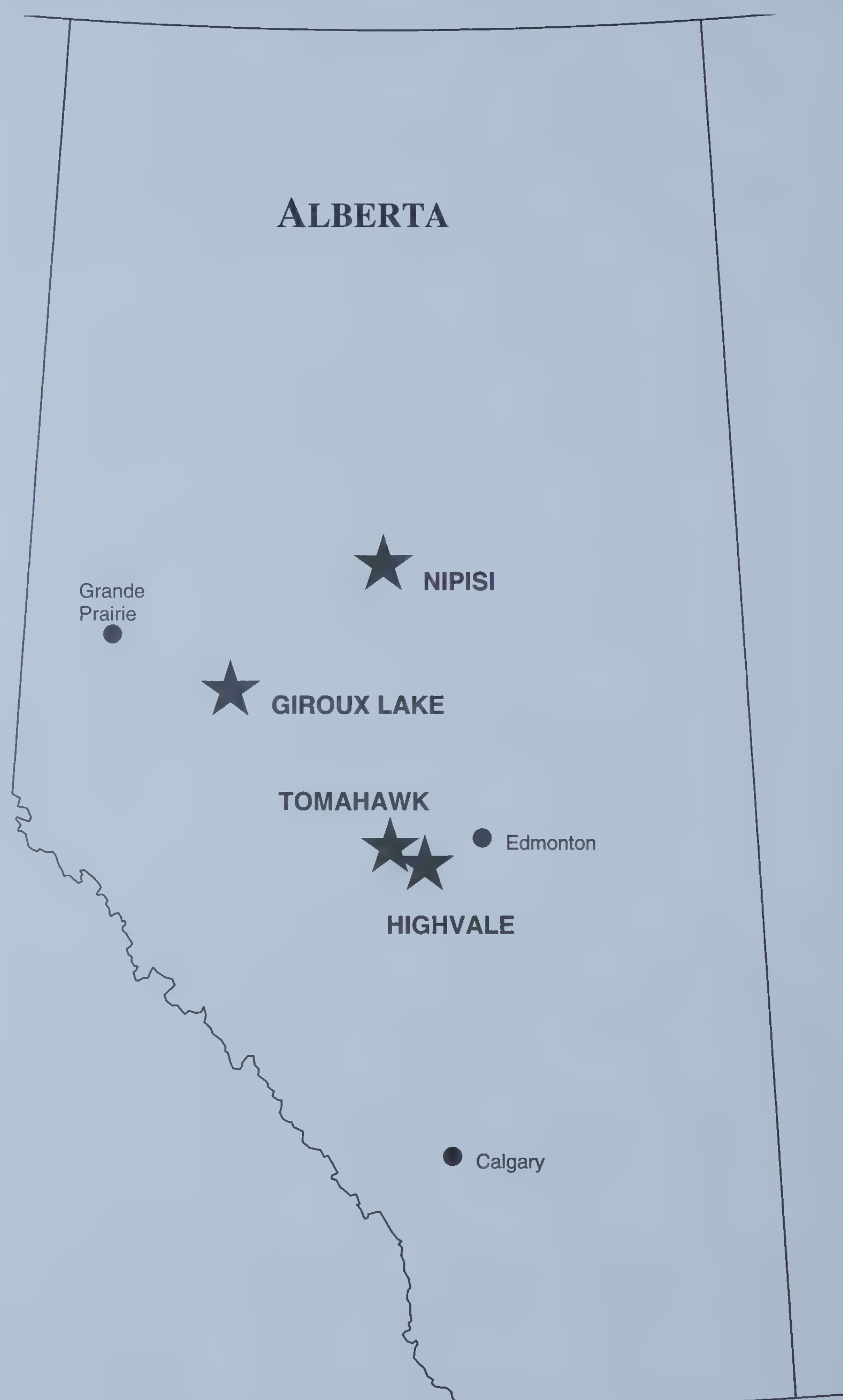
Finding and Development Costs*

	2001	2000	1999	Three Year	Five Year
Capital expenditures ($ thousands)	**1,826**	565	655	3,046	10,365
Proven reserves added (mboe)	**365**	78	183	626	585
Average cost ($/BOE) (proven)	**5.00**	7.25	3.59	4.87	17.72

* Including the impact of reserve revisions

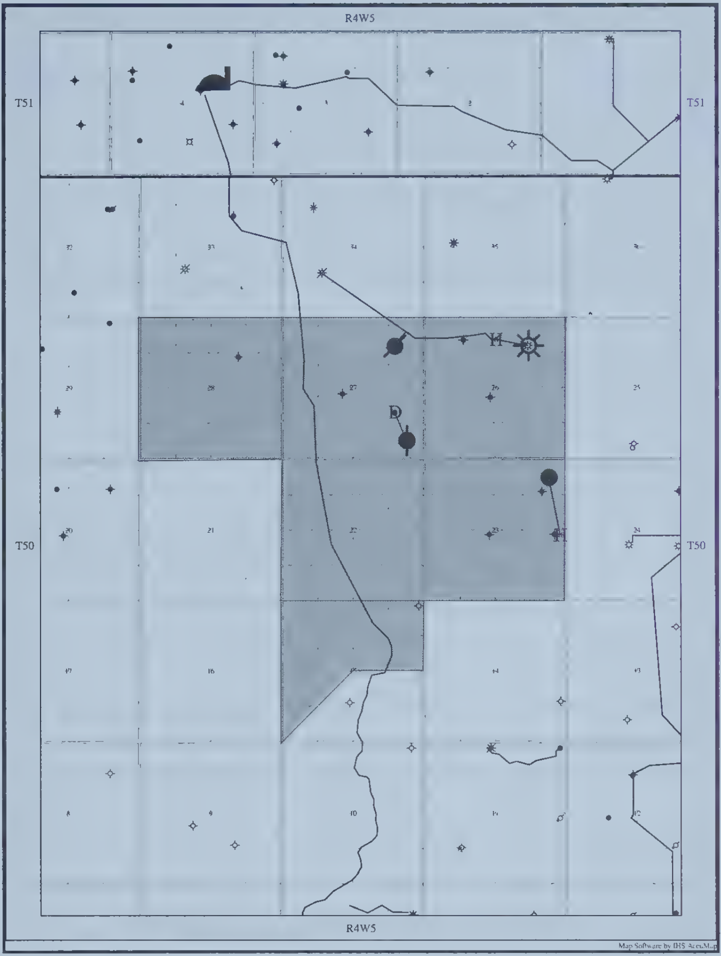
KEY PROPERTIES

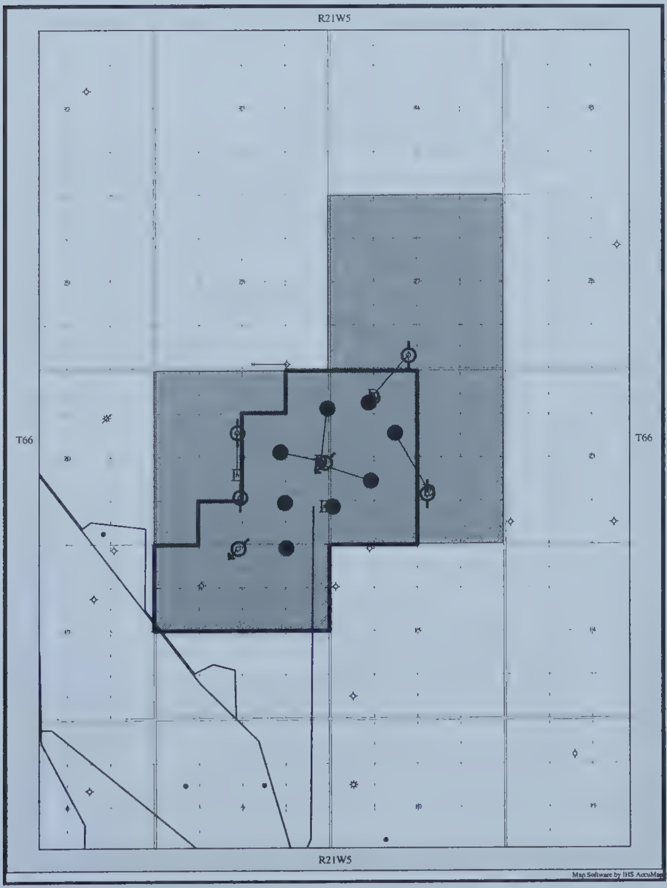
Kensington currently has four key properties concentrated in west central to north central Alberta. Other minor properties are located in central and northern Alberta and southeast Saskatchewan. Kensington has undertaken to consolidate partner interests in key properties to increase ownership and control. Giroux Lake has been the cornerstone of Kensington's production base and this stable waterflood pool accounts for much of the Corporation's oil production. The Highvale property anchors our current gas production base which was brought on stream in late 2001, and now accounts for the majority of total corporate production. The Corporation's undeveloped land position in both Nipisi and Tomahawk continues to be enhanced. These two multizone prospective areas may hold significant growth potential. Kensington continues to focus on these existing key properties but is also actively pursuing new areas from internally generated prospects as well as opportunities external to the Corporation.



HIGHVALE

Highvale is Kensington's premier gas producing property and may have potential for significant reserve adds through horizontal development drilling for oil. This property currently accounts for over 90 percent of corporate gas production and 65 percent of total production on a BOE basis. Stable gas production is from Lower Mannville sandstones. Kensington has undertaken to consolidate its position here and has acquired interests from two partners in the area, allowing us to conduct 100 percent working interest operations with considerable upside potential on undeveloped land. The property consolidations paved the way to bring significant impact gas on stream in late Q3 and initiate horizontal drilling in late Q4. This multizoned potential area continues to be evaluated for upside and growth.



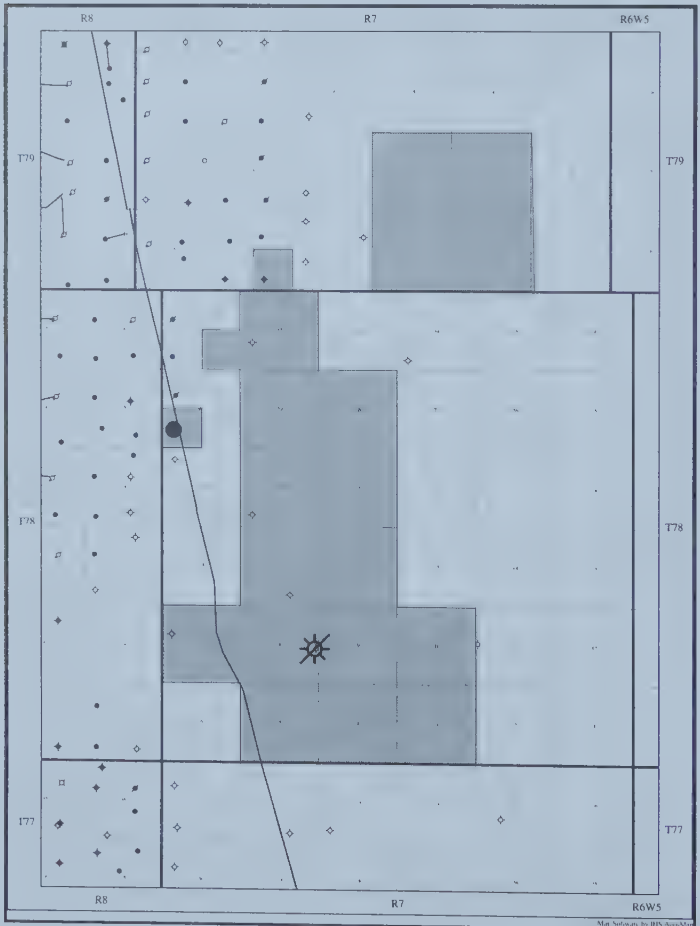


GIROUX LAKE

Giroux Lake is Kensington's major oil producing property. This property currently contributes over 80 percent of Kensington's oil production and 32 percent of total production on a BOE basis. Until other properties came on stream in the latter part of 2001, this was by far the major corporate producing property. Production is from the Giroux Lake Viking F Pool which is currently under a waterflood pressure maintenance scheme. The oil pool is unitized and Kensington has a 39.88 percent non-operated working interest in the Unit. This property provides a stable long term production base for the Corporation. There was relatively little activity on this property in 2001 and the pool is currently under review for potential optimization through infill drilling and conversion of wells to water injectors.

TOMAHAWK

Tomahawk is an exploration property with multizone gas and oil potential. Prospective horizons range from Banff carbonates to shallower Cretaceous clastics. Kensington spent much of 2001 evaluating results from previous drilling programs and interpreting new seismic processing. We are encouraged by the prospectivity of the area, and have increased our working interest in the property through consolidation of interests with partners. Kensington is also leading negotiations with offsetting working interest owners to facilitate a pooling agreement whereby suspended gas wells could be placed on production. Prospecting for significant gas reserves continues in this area.



NIPISI

Nipisi is Kensington's largest exploration property with 18.75 sections of 100 percent working interest land. There was also some minor Gilwood oil production from this property in 2001. Kensington has been active in this area purchasing land, seismic and consolidating working interests with partners. A Kensington operated exploration well was cased in January 2002 as a potential gas well. This area is multizone prospective in a number of shallow and medium depth targets for both gas and oil. Kensington is continuing to evaluate this property for next winter's drilling season.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis should be read in conjunction with the financial statements and notes contained in this annual report. The following discussion contains certain assumptions about future events and actual results may vary significantly from these assumptions. Where amounts are expressed on a barrel of oil equivalent basis (BOE), gas volumes have been converted to barrels of oil at six thousand cubic feet per barrel.

Vision, Core Business and Long Term Business Strategy

Kensington Energy Ltd. is a junior Canadian energy company with producing properties concentrated in central and northwest Alberta and undeveloped land located in Alberta and southeast Saskatchewan. Value creation is the ultimate objective of Kensington's business.

The key elements of Kensington's business strategy are:

- Establish core areas with multi-zone potential
- Continually expand land positions to maintain dominance in growth areas
- Direct exploration capital spending towards natural gas
- Facilitate new impact projects with business development transactions
- Focus on operatorship and speed of execution
- Optimize value creation strategies for existing assets

Critical Success Factor

The implementation of value added exploration and development investment opportunities is critical to the success of Kensington's business plan. The Corporation employs a diversified capital investment approach which balances exploration risks with lower risk development and exploitation strategies. The Corporation invests in exploration projects targeting medium and long life natural gas reserves and light and medium gravity crude oil reserves located in geographical proximity to natural gas opportunities. Kensington utilizes acquisitions and divestments to upgrade its prospect inventory and advance its exploration initiatives.

Resources and Systems

During 2001 Kensington experienced a recapitalization and management reorganization which substantially increased financial capability. In August a private placement by current management added approximately $900,000 to the Corporation's share capital. In December an additional $6.7 million total gross proceeds were raised in a private placement offering of Common Shares and Flow Through Shares. The proceeds of the combined offerings have been used to fund exploration and development drilling undertaken late in 2001 and will be used to fund an expanded capital expenditure program for 2002.

In 2001 Kensington upgraded its technical information system capability to aid exploration and business development initiatives. The Corporation upgraded its communication systems for better management of its operations.

Results

Quarterly Financial Information

	Total	Net Income ($)			Cash Flow From Operations ($)		
		Net	Per Share+		Cash	Per Share+	
	Revenues ($) (before royalties)	Income	Basic	Fully Diluted	Flow	Basic	Fully Diluted
2001							
First Quarter	595,705	98,953	0.009	0.008	349,843	0.030	0.030
Second Quarter	517,587	54,390	0.005	0.005	271,780	0.024	0.023
Third Quarter	376,199	(92,706)	(0.008)	(0.008)	(6,640)	(0.001)	(0.001)
Fourth Quarter	639,796	198,229	0.017	0.017	317,995	0.028	0.027
2000							
First Quarter	534,495	12,882	0.002	0.002	269,395	0.034	0.033
Second Quarter	507,870	10,409	0.001	0.001	244,806	0.031	0.030
Third Quarter	554,802	37,386	0.005	0.005	312,370	0.040	0.039
Fourth Quarter	606,033	129,042	0.016	0.016	341,788	0.043	0.042

+ Quarterly per share results are restated using annual weighted average basic and weighted average fully diluted numbers.

Operating Margin Analysis

	Three Months Ended December 31			Years Ended December 31		
	2001	2000	% Change	**2001**	2000	% Change
PRODUCTION						
Oil and NGL (bbl/d)	**108**	125	(13.6)	**111**	137	(19.0)
Natural gas (mcf/d)	**1,088**	114	854.4	**386**	139	177.7
Oil equivalent (BOE/d)	**289**	144	100.7	**175**	160	9.4
AVERAGE PRICES						
Oil and NGL ($/bbl)	**$ 27.81**	$ 45.51	$ (38.9)	**$ 37.02**	$ 38.70	$ (4.3)
Natural gas ($/mcf)	**$ 3.62**	$ 7.78	$ (53.5)	**$ 4.49**	$ 4.90	$ (8.4)
Per Barrel of Oil Equivalent	**$ 24.01**	$ 37.35	$ (35.7)	**$ 33.31**	$ 37.26	$ (10.6)
$ PER BOE						
Petroleum and natural gas revenue	**$ 24.01**	$ 37.35	$ (35.7)	**$ 33.31**	$ 37.26	$ (10.6)
Royalties	**5.21**	8.37	(37.7)	**6.89**	8.77	(21.4)
Alberta Royalty Tax Credit	**1.28**	1.70	(24.9)	**1.49**	1.82	(18.1)
Operating costs	**3.89**	5.37	(27.5)	**5.10**	5.11	(0.2)
Field netback	**16.19**	25.31	(36.1)	**22.81**	25.20	(9.5)
General and administrative	**3.58**	2.62	36.8	**7.06**	3.56	98.3
Current taxes	**0.26**	-	-	**0.11**	-	-
Operating netback	**12.34**	22.70	(45.6)	**15.64**	21.64	(27.2)
Cash interest	**0.41**	1.63	(74.7)	**1.07**	1.90	(43.7)
Cash flow from operations	**11.93**	21.06	(43.4)	**14.57**	19.74	(25.6)
Depletion and depreciation	**1.58**	7.74	(79.6)	**8.79**	13.82	(36.4)
Future income taxes	**2.91**	5.38	(45.8)	**1.76**	2.73	(15.8)
Non-cash interest	**-**	-	-	**-**	-	-
Net income	**$ 7.44**	$ 7.94	$ (6.5)	**$ 4.03**	$ 3.19	$ 12.5
DOLLARS						
Petroleum and natural gas revenue	**$ 639,795**	$ 606,033	$ 5.6	**$ 2,129,287**	$ 2,203,200	$ (3.4)
Royalties	**138,950**	135,884	2.3	**440,707**	518,640	(15.0)
Alberta Royalty Tax Credit	**34,121**	27,653	23.4	**94,969**	107,378	(11.6)
Interest and other income	**-**	-	-	**1,421**	1,449	(1.9)
Operating costs	**103,720**	87,077	19.1	**325,833**	302,063	7.9
Field netback	**431,246**	410,725	5.0	**1,459,137**	1,491,324	(2.2)
General and administrative	**95,448**	42,476	124.7	**450,936**	210,738	114.0
Current taxes	**6,820**	-	-	**6,820**	-	-
Operating netback	**335,798**	368,249	(10.7)	**1,001,381**	1,280,586	(21.8)
Cash interest	**10,983**	26,461	(58.5)	**68,403**	112,227	(39.0)
Cash flow from operations	**324,815**	341,788	(7.0)	**932,978**	1,168,359	(20.1)
Depletion and depreciation and site restoration	**42,125**	125,509	(66.4)	**561,920**	817,403	(31.3)
Future income taxes	**77,641**	87,237	11.0	**112,192**	161,237	(30.4)
Non-cash interest	**-**	-	-	**-**	-	-
Net income	**$ 198,229**	$ 129,042	$ 53.6	**$ 258,866**	$ 189,719	$ 36.4
MARGINS (%)						
Petroleum and natural gas revenue	**100.0**	100.0	100.0	**100.0**	100.0	100.0
Royalties	**21.7**	22.4	(3.1)	**20.7**	23.5	(12.1)
Alberta Royalty Tax Credit	**5.3**	4.6	16.9	**4.5**	4.9	(8.5)
Operating costs	**16.2**	14.4	12.8	**15.3**	13.7	11.6
Field netback	**67.4**	67.8	(0.6)	**68.5**	67.7	1.2
General and administrative	**14.9**	7.0	112.9	**21.2**	9.6	121.4
Current taxes	**1.1**	-	-	**0.3**	-	-
Operating netback	**51.4**	60.8	(15.4)	**47.0**	58.1	(19.1)
Cash interest	**1.7**	4.4	(60.7)	**3.2**	5.1	(36.9)
Cash flow from operations	**49.7**	56.4	(11.9)	**43.8**	53.0	(17.4)
Depletion and depreciation	**6.6**	20.7	(68.2)	**26.4**	37.1	(28.9)
Future income taxes	**12.1**	14.4	(15.7)	**5.3**	7.3	(28.0)
Non-cash interest	**-**	-	-	**-**	-	-
Net income	**31.0**	21.3	45.5	**12.2**	8.6	41.2

Revenues

Higher production levels in 2001 helped offset declining prices to maintain total sales revenues before royalties at comparable levels to 2000. Overall the Corporation obtained 70 percent of revenues from oil and NGL versus 88 percent in 2000. Through a combination of acquisitions, production optimization efforts, and new discoveries, the Corporation's production levels doubled to 289 BOE per day during the fourth quarter 2001 compared to 137 BOE per day reported during the first nine months of 2001. On an annual basis the Corporation achieved an overall nine percent increase in production, with a 178 percent increase in production from natural gas. These results are reflective of Kensington's greater natural gas emphasis.

Expenses

Operating costs on a BOE basis remained unchanged in 2001 versus 2000, although fourth quarter 2001 operating costs decreased 28 percent on a BOE basis versus the fourth quarter of 2000. One of the major factors contributing to this reduction was placing the relatively low lifting cost gas production from Highvale on stream late in the third quarter of 2001.

General and administrative expenses more than doubled during 2001. This increase occurred mainly as the result of extraordinary reorganization costs of approximately $180,000 during the third quarter of 2001 and incremental office lease expenses of $24,000 in the third and fourth quarters as the result of relocating Kensington's office.

Depletion and depreciation costs per BOE decreased dramatically in the fourth quarter and resulted in an annual decrease of 36 percent. This decrease was the result of a 62 percent increase in total proven reserves which resulted in a depletion rate of 7.5 percent compared with 11.8 percent in 2000.

Cash Flow and Net Income

Cash flow from operations declined 19.6 percent in 2001 versus 2000 as the result of higher general and administration expenses and lower product prices which more than offset higher production volumes. Cash flow per diluted share decreased 43 percent to $0.08 per share versus $0.14 per share in 2000. Cash flow per share values declined greater than overall corporate cash flow values as the result of share dilution from the conversion of the Corporation's Class B shares in June 2000 and two private placements of equity during the third and fourth quarters of 2001.

Net income increased 36 percent in 2001 versus 2000 despite lower cash flow as the result of lower depletion expenses and lower future income tax expenses. Net income per share increased 28 percent in 2001 versus 2000.

Normal Course Issuer Bid

During 2001, a total of 254,000 Class A shares were repurchased and cancelled under the terms of the Corporation's normal course issuer bid. All share repurchases occurred during the first six months of 2001. Under the new management team, no shares were repurchased for cancellation by the Corporation. There are no plans at present to utilize further capital resources of the Corporation to buy back its own shares.

Prospects for Future Results

Kensington's management expects to see the results of its value creation goals reflected in the financial operations of the Corporation during 2002.

While commodity prices continue to be uncertain, crude oil markets have recovered from their recent lows and may be supported over the near term by OPEC policy, continued Middle East tension and economic growth. Natural gas prices may benefit over the longer term from tight supply in North American due to reduced capital spending by industry and rising demand as the economy improves. The evolution of the Corporation's exploration

strategy towards a natural gas emphasis will continue. Operating revenues should continue to be adequate to support the existing corporate structure while growth is expected to result from a diversified capital investment approach which balances exploration risk with growth oriented development and exploitation strategies. In addition, an active acquisition and divestment plan will advance the Corporation's strategies and help shape its asset base.

Business Risks

Exploring for, acquiring, developing, producing and marketing oil and natural gas involve a number of business risks and uncertainties which have the potential to significantly affect operating and financial results. These include exploration risk, reservoir performance, commodity prices, competition and government regulation.

Exploration risk relates to Kensington's ability to economically find and develop new reserves. This risk is mitigated by using skilled and experienced employees and consultants, focusing exploration efforts in areas in which we have existing knowledge and expertise, using the latest technologies, and controlling costs to maximize profitability. The Corporation undertakes a certain portion of its exploration activities jointly with industry partners to allocate exploration risk appropriately within its capital program.

The prices that Kensington receives for oil, natural gas and NGLs are volatile and subject to a number of external factors over which we have no control. Kensington has no current plans to hedge its production in order to eliminate pricing risk. The Corporation manages these risks by selling products through a combination of daily and monthly spot contracts through various purchasers. All contracts are short-term with 30 day termination notices.

Forecasted production from oil and gas reservoirs may decline more quickly than anticipated, resulting in lower cash flow and lower reserve recovery. In an effort to mitigate this risk, Kensington focuses on exploring for high quality reservoirs with more predictable decline characteristics.

Competition for petroleum and natural gas leases and drilling prospects can be very strong at certain times in certain areas. Kensington attempts to mitigate this risk by avoiding areas where it believes that the economics of oil and gas production would be significantly reduced by intense competition.

The operations of oil and gas producers are subject to extensive controls and regulation by various levels of government, and there is risk that future changes in government policies and regulations could adversely impact Kensington's operations.

Cash Flow Sensitivity Summary

Approximate impact in 2002	$ thousands	$ per share
Change of 1.00 $US/bbl in the price of WTI oil	49	0.002
Change in oil production of 10 bbl/d	85	0.003
Change of 0.20 $C/mmbtu in the price of AECO gas	63	0.002
Change in gas production of 100 mcf/d	95	0.003
Change of $0.01 in the $US/$C exchange rate	32	0.001

MANAGEMENT'S REPORT

To the Shareholders of Kensington Energy Ltd.

The financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management directors has met with the external auditors and management in order to determine that management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.

Donald S. Wood
President and Chief Executive Officer

Beverley A. Scobie CA
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Kensington Energy Ltd.

We have audited the balance sheets of Kensington Energy Ltd. as at December 31, 2001 and 2000 and the statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
March 11, 2002

BALANCE SHEETS

	December 31, 2001	December 31, 2000
Assets (note 5)		
Current		
Cash and short term investments	$ 5,888,584	$ 2,918
Accounts receivable	374,562	461,221
	6,263,146	464,139
Property and equipment (note 4)	7,632,809	6,354,814
	$ 13,895,955	$ 6,818,953
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 924,441	$ 1,160,990
Bank indebtedness (note 5)	630,000	-
	1,554,441	1,160,990
Bank indebtedness (note 5)	-	810,000
Site restoration and abandonment	112,710	98,609
Future income taxes (note 7)	1,476,481	1,321,203
	1,589,191	2,229,812
Shareholders' Equity		
Share capital (note 6)	12,660,965	5,678,134
Contributed surplus (note 6)	472,288	389,813
Deficit	(2,380,930)	(2,639,796)
	10,752,323	3,428,151
	$ 13,895,955	$ 6,818,953

See accompanying notes

On behalf of the Board:

Director

Director

STATEMENTS OF INCOME AND DEFICIT

	For the Years Ended December 31	
	2001	2000
Revenue		
Petroleum and natural gas sales	**$ 2,129,287**	$ 2,371,212
Hedging loss (note 9)	**-**	(168,012)
Royalties	**(440,707)**	(518,640)
Alberta Royalty Tax Credit	**94,969**	107,378
Other income	**1,421**	1,449
	1,784,970	1,793,387
Expenses		
Production	**325,833**	302,063
General and administrative	**450,936**	210,738
Interest	**68,403**	112,227
Depletion, depreciation and site restoration	**561,920**	817,403
	1,407,092	1,442,431
Income Before Income Taxes	**377,878**	350,956
Income Taxes (note 7)		
Current	**6,820**	-
Future	**112,192**	161,237
	119,012	161,237
Net Income For The Year	**258,866**	189,719
Deficit, beginning of year	**(2,639,796)**	(3,789,470)
Change in accounting policy (note 3)	**-**	959,955
Deficit, end of year	**$ (2,380,930)**	$ (2,639,796)
Net Income per Class A Share (note 2)		
Basic	**$ 0.02**	$ 0.02
Diluted	**$ 0.02**	$ 0.02

See accompanying notes

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31	
	2001	2000
Operating Activities		
Net income for the year	**$ 258,866**	$ 189,719
Add non-cash items		
Depletion, depreciation and site restoration	**561,920**	817,403
Future income taxes	**112,192**	161,237
Cash flow from operations	**932,978**	1,168,359
Changes in non-cash working capital items	**(149,890)**	188,569
Cash provided by operating activities	**783,088**	1,356,928
Financing Activities		
Repayment of bank indebtedness	**(180,000)**	(590,000)
Shares repurchased and cancelled	**(58,486)**	(203,736)
Issue of share capital	**7,614,400**	-
Share issue costs	**(447,522)**	-
Cash provided by (used in) financing activities	**6,928,392**	(793,736)
Investing Activities		
Expenditures on property and equipment	**(2,095,814)**	1,094,505
Sale of properties	**270,000**	529,203
Cash used in investing activities	**(1,825,814)**	(565,302)
Increase (decrease) in cash	**5,885,666**	(2,110)
Cash		
Beginning of year	**2,918**	5,028
End of year	**$ 5,888,584**	$ 2,918
Cash flow from operations per Class A Share		
Basic	**$ 0.08**	$ 0.15
Diluted	**$ 0.08**	$ 0.14
Interest paid	**$ 68,403**	$ 112,227
Cash taxes paid	**$ -**	$ -

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

1. DESCRIPTION OF BUSINESS

Kensington Energy Ltd. (the "Corporation") was incorporated under the laws of the Province of Alberta on January 25, 1995 as 640773 Alberta Inc. On May 5, 1995, articles of amendment were filed to change the Corporation's name to Kensington Energy Ltd. The Corporation's business is the acquisition of petroleum and natural gas rights and the exploration for, development and production of, crude oil and natural gas in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the accounting principles summarized below.

Cash and short term investments

Short term investments consist of term deposits with maturities of 90 days or less. As at December 31, 2001, short term investments consisted of $6,000,000 (2000 - nil). Cash as at December 31, 2001 was ($111,416) compared to cash at December 31, 2000 of $2,918.

Property and equipment

Petroleum and natural gas properties

The Corporation follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas properties and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, tangible production equipment and that portion of general and administrative expenditures directly related to acquisition, exploration and development activities. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets, except when such a disposal would change the depletion and depreciation rates by more than 20 percent, in which case a gain or loss on disposal would be recorded.

Capitalized costs, including tangible production equipment, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by an independent reserve engineer, converting natural gas to an oil equivalent basis using six thousand cubic feet of natural gas for one barrel of petroleum.

The Corporation applies a ceiling test to capitalized costs on an annual basis to ensure that such costs do not exceed the estimated undiscounted future net revenues from production of gross proven reserves, using prices and costs in effect at year end, plus the cost of undeveloped properties net of impairment, less amounts associated with future general and administrative costs, financing costs and income tax expense.

Computer equipment and furniture

Computer equipment and furniture is recorded at cost and is depreciated at 25 percent on a declining balance basis.

Site restoration and abandonment

Future site restoration and abandonment costs of the Corporation's petroleum and natural gas properties are estimated by reference to costs currently experienced by the Corporation. The estimated expense is reduced by expected equipment salvage values at the time of abandonment. The resulting net estimated expense, if any, is amortized to earnings over the remaining life of the Corporation's reserves on a unit of production basis. Actual expenditures incurred are applied against the accumulated provision account.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the future income taxes related to the temporary difference arising at the later of renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding reduction to the carrying value of the shares issued.

Joint activities

Certain of the Corporation's petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

Financial instruments

The fair values of financial instruments comprising cash, accounts receivable, accounts payable and accrued liabilities and bank indebtedness approximate their carrying values.

The nature of operations and the issuance of debt expose the Corporation to fluctuations in commodity prices, foreign currency exchange rates and interest rates. The Corporation manages these risks by selling products through a combination of daily and monthly spot contracts through various purchasers. All contracts are short-term with 30 day termination notices.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements in future periods could be significant.

Stock options

Under the stock option plan described in note 6, no compensation expense is recognized when stock options are issued to employees. Any consideration paid on exercise of stock options is credited to share capital.

Credit risk

The majority of the Corporation's accounts receivable are in respect of oil and gas production. Approximately 60 percent of these relate to two companies. The Corporation views the credit risk with these partners as low.

Income taxes

Income taxes are accounted for under the liability method of tax allocation, which determines future income taxes based on the differences between assets and liabilities reported for financial accounting purposes and those reported for tax purposes. Future income taxes are calculated using tax rates anticipated to apply in periods that temporary differences are expected to reverse.

3. CHANGES IN ACCOUNTING POLICY

Effective January 1, 2001, the Corporation adopted the treasury stock method of computation, presentation and disclosure of diluted earnings per share amounts as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under this method only "in the money" dilutive stock options are included in the weighted average number of shares, and the proceeds from the exercise of these "in the money" options are considered to be used to re-acquire common shares at the average market price during the year. The diluted weighted average number of common shares is then calculated based on these assumed transactions.

Prior year diluted earnings per share and diluted cash flow per share have been restated to reflect this change. If the imputed earnings method had been used to calculate these amounts, there would not be a material dilutive effect on diluted earnings per share or diluted cash flow from operations per share.

Effective January 1, 2000, the Corporation adopted the CICA recommendations on a retroactive basis without restatement of prior periods by recording an increase to property and equipment of $2,119,921, a decrease to the deficit of $959,955, and an increase in future income taxes of $1,159,966. The additions to property and equipment will be amortized to income over future periods.

4. PROPERTY AND EQUIPMENT

	December 31, 2001		
	Cost	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum and natural gas properties and production equipment	$ 15,677,146	$ 8,088,851	$ 7,588,295
Computer equipment and furniture	120,185	75,671	44,514
	$ 15,797,331	$ 8,164,522	$ 7,632,809

	December 31, 2000		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and production equipment	$ 13,874,299	$ 7,550,851	$ 6,323,448
Computer equipment and furniture	97,218	65,852	31,366
	$ 13,971,517	$ 7,616,703	$ 6,354,814

As at December 31, 2001, unproved properties with a cost of $1,204,374 (2000 - $586,362) have been excluded from costs subject to depletion.

During 2001, the Corporation capitalized general and administrative expenditures directly related to acquisition, exploration and development activities of $245,635 (2000 - $233,320).

5. BANK INDEBTEDNESS

As at December 31, 2001, the Corporation has a $2,000,000 operating line of credit (2000 - $2,000,000), due on demand bearing interest at the bank's prime lending rate plus 0.75 percent (2000 - bank prime plus 0.75 percent). The Corporation has pledged as collateral a general security agreement and a first floating charge demand debenture of $2,000,000 over all of the Corporation's assets. The credit facility is reviewed by the bank annually.

As at December 31, 2001 $630,000 (2000 - $810,000) was drawn on this facility by the Corporation. At December 31, 2000 the bank indicated that while it reserved the right to request payment on demand, they were not aware of any facts, events or occurrences which would cause them to demand the loan prior to December 31, 2001. Accordingly, the loan at December 31, 2000 was classified as long term.

6. SHARE CAPITAL

a) Authorized

Unlimited number of Class A common shares, voting, with no par value.
Unlimited number of Class B common shares, voting, with no par value.

b) Issued and outstanding

	2001		2000	
	Number of Shares	**$**	Number of Shares	$
Class A Shares				
Balance, beginning of year	**10,142,776**	**5,678,134**	5,177,276	2,670,850
Common shares issued	**11,043,428**	**3,865,200**	-	-
Flow-through share offering	**8,222,222**	**3,700,000**	-	-
Stock options	**246,000**	**49,200**	-	-
Repurchased and cancelled	**(254,000)**	**(140,961)**	(854,500)	(472,764)
Conversion of Class B shares	-	-	5,820,000	3,480,048
Share issue costs net of future income taxes	-	**(254,981)**	-	-
Tax benefits renounced		**(235,627)**		
Balance, end of year	**29,400,426**	**12,660,965**	10,142,776	5,678,134
Class B Shares				
Balance, beginning of year	-	-	1,505,500	3,600,833
Repurchased and cancelled	-	-	(50,500)	(120,785)
Conversion into Class A shares	-	-	(1,455,000)	(3,480,048)
Balance, end of year	-	-	-	-
	-	**12,660,965**	-	5,678,134

c) Flow-through Shares

Pursuant to flow-through share agreements dated December 21, 2001, the Corporation issued 8,222,222 flow-through Class A shares and renounced resource expenditures of $3,700,000. Kensington has incurred qualifying expenditures totaling $550,000 as of December 31, 2001.

d) Common shares issued

On August 10, 2001 the Corporation issued 2,472,000 units at a cost of $0.35 per unit for gross proceeds of $865,200. Each unit consisted of one Class A common share and one Class A common share purchase warrant. Each warrant entitles the holder to purchase one additional Class A common share at a price of $0.45 until September 10, 2002.

On December 21, 2001 the Corporation issued 8,571,428 Class A shares at a price of $0.35 for gross proceeds of $3,000,000.

e) Normal course issuer bid

During 2001, 254,000 Class A shares (2000 - 854,500 Class A Shares) were repurchased and cancelled for $58,486 (2000 - $169,936) and nil Class B shares (2000 - 50,500 Class B Shares) were purchased and cancelled for nil (2000 - $33,200). The Class A share capital was reduced by $140,961 (2000 - Class A $472,764, Class B $120,785) representing the amounts originally recorded as share capital. Contributed surplus of $82,475 (2000 - $389,813) has been recorded, representing the difference between the amounts originally recorded as share capital and the amounts paid to repurchase the shares.

f) Conversion of Class B shares

The Class B shares were converted into 5,820,000 Class A shares by the Corporation on June 29, 2000. The fraction of a Class A share obtained upon conversion of each Class B share was equal to $4.00 divided by the greater of $1.00 or the current market price of the Class A shares at that time.

g) Stock option plan

The Corporation has established a stock option plan whereby the Corporation may grant options to its directors, officers and employees for up to 10 percent of the issued Class A shares.

The following is a continuity of stock options outstanding for which shares have been reserved:

	2001		2000	
	Shares	**Weighted-Average Exercise Price ($)**	Shares	Weighted-Average Exercise Price ($)
Opening	**762,000**	**0.26**	300,000	0.36
Granted	**945,000**	**0.22**	462,000	0.20
Exercised	**(246,000)**	**0.20**	-	-
Cancelled/expired	**(356,000)**	**0.26**	-	-
	1,105,000	**0.23**	762,000	0.26

The following summarizes information about stock options outstanding at December 31, 2001:

Exercise Price ($)	**Number Outstanding at December 31, 2001**	**Weighted-Average Remaining Contractual Life (years)**	**Weighted-Average Exercise Price ($)**	**Number Exercisable at December 31, 2001**
0.20	132,000	3.4	0.20	56,000
0.55	28,000	1.4	0.55	28,000
0.22	945,000	4.75	0.22	-
	1,105,000			84,000

7. INCOME TAXES

The Corporation has an effective tax rate which differs from the expected Canadian income tax rate. The differences are as follows:

	2001	2000
Statutory income tax rate	**43.12%**	44.62%
Computed expected provision	**$ 162,941**	$ 156,597
Increase (decrease) resulting from:		
Non-deductible crown charges	**183,516**	208,159
Alberta royalty credit	**(40,950)**	(47,912)
Resource allowance	**(106,939)**	(133,269)
Attributed Alberta Royalty Deduction	**(34,975)**	(31,655)
Rate adjustment	**(60,639)**	9,317
Other	**9,238**	-
Income taxes	**112,192**	161,237
Large corporations tax	**6,820**	-
	$ 119,012	$ 161,237

At December 31, 2001, the Corporation has available for deduction against future taxable income undepreciated capital cost, Canadian exploration expense, and Canadian development expense aggregating approximately $3,195,203 (2000 - $3,160,000).

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Corporation's future income tax assets and liabilities are as follows:

	2001	2000
Net book value of capital assets in excess of tax pools	**$ (1,783,995)**	$ (1,425,523)
Future site restoration costs	**48,601**	43,999
Share issue costs	**154,032**	5,672
Rate reduction from resource allowance	**38,364**	22,994
Attributed Alberta Royalty Deduction	**66,517**	31,655
Future tax liability	**$ (1,476,481)**	$ (1,321,203)

8. COMMITMENT

The Corporation is committed to operating and equipment leases as follows:

2002: $ 187,309

2003: $ 68,736

9. PETROLEUM PRICE RISK MANAGEMENT

The nature of the Corporation's operations result in exposure to fluctuations in commodity prices and interest rates. As of December 31, 2001 no contracts to manage exposure to these risks were in place. During 2000 the Corporation entered into contracts to swap spot prices for fixed prices on 50 barrels per day of its oil production at prices of US $20.05 per barrel for the first quarter, US $21.10 per barrel for the second quarter, US $25.05 per barrel for the third quarter, and US $29.63 per barrel for the fourth quarter of 2000.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

HISTORICAL SUMMARY

Years ended December 31	2001	2000	1999	1998	1997
	($)	($)	($)	($)	($)
FINANCIAL					
Revenue					
Petroleum and natural gas sales [1]	**2,129,287**	2,203,200	1,548,808	1,495,921	2,904,779
Royalties, net of ARTC	**(345,738)**	(411,262)	(156,209)	(103,868)	(352,045)
Interest and other	**1,421**	1,449	15,272	5,163	8,353
	1,784,970	1,793,387	1,407,871	1,397,216	2,561,087
Expenses					
Operating	**325,833**	302,063	168,581	293,790	615,016
General and administrative	**450,936**	210,738	209,008	482,901	367,557
Depletion, depreciation and site restoration	**561,920**	817,403	581,220	1,129,724	1,565,049
Interest on long-term debt	**68,403**	112,227	115,665	110,978	8,648
	1,407,092	1,442,431	1,074,474	2,017,393	2,556,270
Income before other items and taxes	**377,878**	350,956	333,397	(620,177)	4,817
Net income (loss) [2]	**258,866**	189,719	333,397	(3,250,177)	(1,001,868)
Cash flow from operations	**932,978**	1,168,359	914,617	509,547	1,569,866
Balance sheet information					
Capital expenditures, net	**1,825,814**	565,302	883,816	547,855	6,814,702
Long-term bank indebtedness	**-**	810,000	1,400,000	1,830,000	890,000
Working capital (deficiency)	**4,708,705**	(696,851)	(317,602)	209,033	(595,736)
Shareholders' equity	**10,752,323**	3,428,151	2,482,213	2,276,252	6,181,129
Common shares outstanding	**29,400,426**	10,142,776	5,177,276	5,559,276	4,999,776
Per share data (fully diluted)					
Net income	**0.02**	0.02	0.06	(0.58)	(0.23)
Cash flow from operations	**0.08**	0.14	0.08	0.04	0.17
OPERATING					
Production					
Oil and NGL (bbls/d)	**111**	137	150	142	209
Natural gas (mcf/d)	**386**	139	170	530	1,870
Barrels of oil equivalent (BOE/d) [3]	**175**	160	178	230	521
Proven reserves					
Oil and NGL (bbls)	**284,000**	311,000	314,000	328,000	387,000
Natural gas (mmcf)	**3,014**	1,042	911	121	665
Barrels of oil equivalent (BOE)	**786,300**	484,700	465,800	348,200	493,800
Probable reserves					
Oil and NGL (bbls)	**91,000**	544,000	552,000	676,000	248,000
Natural gas (mmcf)	**1,363**	2,058	3,455	1,240	1,101
Barrels of oil equivalent (BOE)	**318,200**	887,000	1,128,000	882,700	431,500
Drilling activity					
Gross wells	**4.0**	4.0	1.0	3.0	23.0
Net wells	**2.4**	0.9	0.4	1.9	8.9

(1) Includes hedging.
(2) The losses for 1997 and 1998 include ceiling test writedowns of oil and gas properties of $840,000 and $2,630,000, respectively.
(3) Natural gas is equated to oil on the basis of: 6,000 cubic feet or 6 mcf = 1 barrel of oil equivalent.

ABBREVIATIONS

bbls	barrels	mcf	thousand cubic feet
bbl/d	barrels per day	mcf/d	thousand cubic feet per day
bcf	billion cubic feet	mmbtu	million British Thermal Units
BOE	barrels of oil equivalent [1]	mmcf	million cubic feet
mboe	thousand barrels of oil equivalent	mmcf/d	million cubic feet per day
BOE/d	barrels of oil equivalent per day	NGLs	natural gas liquids
mbbl	thousand barrels		

(1) Natural gas is equated to oil on the basis of: 6,000 cubic feet or 6 mcf = 1 barrel of oil equivalent

CORPORATE INFORMATION

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Kensington Energy Ltd.
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Richard R. Couillard
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David H. Erickson
Raven Energy Ltd.

John M. Gareau
Independent Businessman

Donald S. Wood, President and Chief Executive Officer
Kensington Energy Ltd.

OFFICERS AND KEY PERSONNEL

Donald S. Wood
President and Chief Executive Officer

Beverley A. Scobie CA
Chief Financial Officer

Dean G. Anderson
Vice President, Operations

Barry R. Larson
Vice President, Exploration

AUDITORS

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Calgary, Alberta

BANKERS

Alberta Treasury Branches
Calgary, Alberta

EVALUATION ENGINEERS

Martin & Brusset Associates
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

SOLICITORS

Gowling Lafleur Henderson LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

Canadian Venture Exchange
Class A Shares
Trading Symbol: KNN.A